Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20544

In the Matter of the Federal-State Joint Board on Universal Service	) CC Docket No. 96-45
Request for Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support and the ETC Designation Process	)

THE ALASKA TELEPHONE ASSOCIATION'S REPLY COMMENTS

I. INTRODUCTION

On October 15, 2004, the Alaska Telephone Association ("ATA") filed comprehensive opening comments in this proceeding in response to the Federal-State Joint Board on Universal Service's request for comment on an extensive array of issues referred to it by the FCC relating to high cost universal service support mechanisms for rural carriers. The FCC asked the Joint Board for recommendations on "a long-term universal service plan that ensures that support is specific, predictable and sufficient to preserve and advance universal service."[1] The ATA replies to the comments most directly relevant to rural Alaska.

[1] *In the Matter of Federal-State Joint Board on Universal Service,* Order, FCC 04-125 (rel. June 28, 2004)("Referral Order"); *Federal-State Joint Board on Universal Service Seeks Comment on Certain of the Commission's Rules Relating to High-Cost Universal Service Support*, Public Notice, CC Docket No. 96-45, FCC 04J-2 (rel. August 16, 2004).

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II. ANALYSIS

To some, whether and how to reform the Universal Service Fund mechanism is an academic debate. However, the result of that debate could have a profound effect on the daily lives of rural Alaskans. As the ATA demonstrated in its October 15, 2004 comments, rural Alaska depends on telecommunications in a way few, if any, other parts of the United States can even imagine. In rural Alaska, populations are very small, the percent of residents in rural Alaska living below the poverty line is high because there are few jobs, community residents hunt and fish for their food, the terrain is very rugged, and countless communities are completely isolated from anything resembling a city by virtue of there being very few roads in Alaska. Without high quality and affordable telecommunications service, rural Alaskans have little access to government, education and commercial services, access which is necessary to participate in the Nation's commercial, educational, and public affairs. Rural Alaska requires and depends on sufficient, predictable and specific support in order to have access to affordable basic and advanced telecommunications service. However, no private investor could possibly justify investing in a telecommunications network in rural Alaska without assurance that network investment costs can be recovered. For these reasons, encouraging rural network investment is the appropriate standard by which Universal Service Fund reform should be guided.

It is against this backdrop that the ATA focuses its reply comments on the October 15, 2004 comments filed by Dobson Cellular Systems, Inc. ("Dobson"). Dobson's comments contain some of the most destructive recommendations as applied

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to rural Alaska and almost certainly other rural parts of the country. In its comments, Dobson proposes that: (1) the FCC consider whether the USF Fund could be reduced by deducting RUS loan disbursements from a carrier's universal service support, and (2) universal service support for rural ILECs be calculated on a forward-looking cost model that computes support based on the least cost technology. *Dobson Comments* at 6-9. In addition, Dobson suggests that regulators do not have rules or mechanisms in place to control rural carriers' costs and proposes that all rural local exchange companies be investigated and audited to ensure that the costs they report are prudently incurred and accurately reported. *Dobson Comments* at 6-7.

It is absurd to consider whether RUS disbursements should be deducted from a carrier's high cost support because it is obvious that RUS loan disbursements are not duplicative of high cost universal service support and are not an effective substitute.[2] If a lender does not have a reasonable expectation that a loan will be repaid, a lender will not help a telecommunications company make an investment in rural areas. A lender will evaluate whether a rural area can generate sufficient revenues for the rural carrier to repay a loan. If an area is not sufficiently economically attractive, a lender will reject a loan request. And, no telecommunications company will even be tempted to apply for a loan to support rural telecommunications network infrastructure if the telecommunications business cannot generate sufficient revenue to at least recover the company's costs including capital costs, and operational expenses. In rural Alaska,

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[2] *Dobson Comments* at 9.

where populations are very small and the percent of residents living below the poverty line is high, it is unreasonable to expect any company or lender to seriously consider investing in a capital intensive telecommunications network without a sufficient, predictable and stable revenue stream prior to making an investment. In rural Alaska, high cost support is critical, because high cost support contributes a substantial portion of that revenue stream and is essential to an investor's assessment of the risk of investing in a rural telecommunications network.

Dobson also argues that all carriers should be required to use a cost model that computes the forward-looking cost of the lowest-cost technology available. *Dobson Comments* at 6-7. Presumably, calculating Universal Service Fund support on the "lowest cost technology" would reduce a carrier's high-cost support if less expensive technologies or equipment became available after a carrier made its investment. This approach would deter rather than encourage rural network investment. Small rural carriers and lenders will not make rural network investments if they do not have a reasonable assurance that loans can be repaid and costs will be recovered. In an isolated, economically poor and sparsely populated area where high cost support is required to provide affordable service, no company would invest in a telecommunications network if the required high cost support was always at risk of being reduced due to the subsequent availability of lower-priced technology and

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equipment.[3] Such a policy would also be contrary to the predictable and sufficient support mechanisms required by Section 254(b) of the Telecommunications Act.

Dobson also advocates using a forward-looking cost model for calculating high cost support. However, calculating support based on a model ignores actual investment costs. Under Dobson's approach, rural carriers would have no incentive to invest more than what the model predicts and calculates. Moreover, as the Joint Board knows, the Rural Task Force evaluated different options for delivering universal service and rejected several alternatives to the embedded cost mechanism, including a forward-looking cost model. The Rural Task Force examined the application of the FCC Synthesis Model to the rural test companies, and concluded that the costs generated by this model were likely to vary widely from reasonable estimates of forward-looking costs, as the model significantly underestimated wire center area, underestimated central office equipment switching investment, and network operations and customer operations expenses, and produced significant variations of the number of route-miles when compared with actual data. In addition, the quantity of lines in the model differed significantly from actual lines served, and the model results for the type of plant varied widely from actual plant constructed. *Rural Task Force Recommendation* at 17-18. The Rural Task Force concluded that the FCC Synthesis Model was not an appropriate tool for determining the forward-looking costs of rural carriers. Unless a forward-

[3] If these concerns were not enough, lowest cost can often mean lowest quality. That is, the lowest cost technology may produce a low quality telecommunications network, which subverts Congress' intent that all consumers have access to quality service. 47 U.S.C. §254(b)(2).

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looking cost model accurately predicts costs, the model will not produce high cost support calculations that promote Congress' goal that universal service support be sufficient and predictable. Nationwide, rural carriers are diverse and even in Alaska, there is significant diversity among rural carriers in terms of geography, topography, climates, loop lengths, network design, and consequently costs. A forward-looking cost model cannot provide a reasonable estimate based on the carriers' diverse circumstances. The best inputs are actual network designs and actual operating costs, and not a forward-looking cost model. For these reasons, a forward-looking model in rural areas will act as a disincentive to rural investment, which is contrary to the Telecommunications Act of 1996.

The existing high cost mechanism based on embedded costs should continue to be used as the basis for determining universal service support in rural areas because it encourages rural network investment. Calculating support based on embedded costs reflects a carrier's actual costs and gives rural carriers (and their lenders) the requisite confidence that their costs will likely be recovered which, in turn, promotes network enhancement. High cost, universal service support, which has been based on the embedded cost mechanism, has made it possible for rural carriers in Alaska to provide high quality, basic and advanced telecommunications services to their customers. Moreover, a rural carrier's costs are measurable, verifiable, and can be reviewed and adjusted. The Joint Board and the FCC can continue to encourage rural network investment by reaffirming the importance and use of the embedded cost mechanism,

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and rejecting forward looking cost models, including those utilizing lowest cost technology methodologies.

Dobson also flies high with its rhetoric, arguing that rural ILECs are gold-plated, inefficient, and should be audited on the basis that "regulators need to have rules or mechanisms in place to control costs." *Dobson Comments* at 7. This argument presumes that no such review processes exist and that rural carriers operate in a regulatory-free environment. This premise is incorrect, particularly as applied to Alaska.

In Alaska, the Regulatory Commission of Alaska routinely scrutinizes rural local exchange company's costs. All Alaska local exchange carriers participate biennially in an access charge proceeding in which their costs are first scrutinized through extensive discovery and investigation by Alaska's intrastate long distance carriers, and then reviewed and approved (or disapproved) by the Regulatory Commission of Alaska. Every economically regulated rural local exchange carrier in Alaska is still fully rate regulated, and their costs are scrutinized in local rate cases in which the Alaska Attorney General participates as an independent party. And, the Regulatory Commission of Alaska has closely scrutinized incumbent local exchange Universal Service Fund revenues as part of the annual Eligible Telecommunications Carrier certification process. Therefore, Dobson's assumption that rural incumbent carrier's costs are neither reviewed nor controlled is simply incorrect as applied to Alaska.

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III. CONCLUSION

Dobson's comments, if adopted, would have devastating impacts on rural Alaskans' access to high quality, affordable basic and advanced telecommunications services. Dobson's views should be rejected. Instead, as the ATA strongly advocated in its October 15, 2004 comments, the Joint Board should clearly endorse the use of the embedded cost model for calculating high cost support in rural areas.

Dated this 14th day of December, 2004.

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